

Message Text

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ACTION AF-18

INFO OCT-01 ADP-00 IO-12 L-03 AID-20 CIAE-00 COME-00 EB-11

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CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 CEA-02 DODE-00

PA-03 USIA-12 PRS-01 NSC-10 SS-14 STR-08 H-02 AGR-20

RSR-01 /181 W

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R 300827 Z MAR 73

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 7854

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

UNCLAS PRETORIA 1032

E. O. 11652: N/A

TAGS: EFIN, ECON, SF

SUBJ: FY 1973/74 SOUTH AFRICAN BUDGET PRESENTATION

CAPE TOWN ALSO FOR EMBASSY.

SUMMARY: THEME OF BUDGET IS TO PROMOTE HEALTHY GROWTH THROUGH MODERATE STIMULATION OF ECONOMY. BALANCE OF PAYMENTS IMPROVED SPECTACULARLY, BUT ECONOMIC PERFORMANCE IN 1972 UNSATISFACTORY AS REGARDS INFLATION AND GROWTH; HOWEVER, ECONOMIC REVIVAL FORCES NOW STRONG AND HIGHER RATE OF GROWTH IN 1973 ANTICIPATED. 1973 ECONOMIC PROGRAM INCLUDES IMPROVING EXPORT PERFORMANCE, LESSENING IMPACT OF INFLATION ON POOR, IMPROVING PRODUCTIVITY (INCLUDING CONSIDERATION OF TRAINING OF AFRICAN WORKERS IN WHITE AREA), AND CONTINUED EMPHASIS ON INDUSTRIAL PROMOTION AND PROTECTION. FY 1972/73 BUDGET YEAR EXPECTED TO END WITH SIZEABLE SURPLUS. PROPOSED FY 1973/74 BUDGET HAS TOTAL R406 MILLION DEFICIT. NEW FEATURES INCLUDE INCREASED PENSIONS AND ADDITIONAL AID TO EXPORTERS. BUDGET PROPOSES MINOR TAX INCREASES BUT MORE SIGNIFICANT TAX CONCESSIONS (VALUED AT UNCLASSIFIED

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R 72 MILLION). PRESENTATION CONCLUDED WITH EXHORTATION TO " PUT OUR SHOULDERS TO THE WHEEL AND

GRASP THE OPPORTUNITIES OFFERED
BY ECONOMIC REVIVAL."

1. IN PRESENTING FY 1973/74 BUDGET, MINFIN DIEDERICH'S STATED GOAL WAS TO PROMOTE "HEALTHY" GROWTH OF ECONOMY. REVIEW OF 1972 PERFORMANCE EMPHASIZED "SPECTACULAR" IMPROVEMENT IN BALANCE OF PAYMENTS (DEFICIT REDUCED FROM R 976 MILLION IN 1971 TO R 97 MILLION WITH YEAR END RESERVES OF R 1,090 MILLION), RELATIVELY HIGH LEVEL OF INFLATION (CONSUMER PRICE INDEX UP 7/4 0/0), AND COMPARATIVELY LOW RATE OF GROWTH (GROSS DOMESTIC PRODUCT UP 3 0/0).

2. LOOKING TO FUTURE, MINFIN STATED HE CONVINCED FORCES POINTING TO ECONOMIC REVIVAL WERE STRONG AND ANTICIPATED FASTER GROWTH RATE IN 1973. COST FACTORS (INCREASED RAIL TARIFFS, HIGHER WAGES AND SALARIES, HIGHER COSTS OF IMPORTS) EXPECTED TO CONTINUE TO EXERT PRESSURE ON PRICES "IN IMMEDIATE FUTURE" BUT THERE GROUNDS FOR HOPING RATE OF INFLATION MAY DECLINE LATER IN YEAR. BALANCE OF PAYMENTS NOT CONSIDERED RESTRAINT ON GROWTH THOUGH REDUCED EXPORTS (IMPACT OF DROUGHT) AND INCREASED IMPORTS (FUNCTION OF GROWTH) ANTICIPATED. INTERNATIONAL MONETARY DISURBANCES MAY BE PROBLEM ("UNTIL GOLD ASSUMES ITS RIGHTFUL PLACE AS KEYSTONE OF THE INTERNATIONAL MONETARY SYSTEM, I DOUBT WHETHER A LASTING STABILITY CAN BE ACHIEVED. THIS REQUIRES A REALISTIC ADJUSTMENT OF THE OFFICIAL PRICE OF GOLD.")

3. MINISTER SAID 1973 ECONOMIC PROGRAM INCLUDES IMPROVING EXPORT PERFORMANCE, LESSENING IMPACT OF INFLATION ON POOR, AND MODERATE ECONOMIC STIMULATION SO AS TO AVOID DEMAND INFLATIONARY PRESSURES. ON LABOR FRONT, FOCUS ON IMPROVING PRODUCTIVITY WHICH INCLUDES RECLASSIFICATION OF SKILLED/UNSKILLED WORK ("TO IMPROVE STATUS OF THE ARTISAN") AND MORE ATTENTION TO AFRICAN TRAINING (INTERDEPARTMENTAL COMMITTEE TO INVESTIGATE SYSTEM OF PRE-SERVICE AND IN-SERVICE TRAINING FOR AFRICAN WORKERS IN WHITE AREAS). EMPHASIS ON INDUSTRIAL PROMOTION AND PROTECTION, IN PARTICULAR FOR SECONDARY INDUSTRY, TO CONTINUE. IN THIS CONNECTION, MINISTER STATED THAT WHERE IMPORT TARIFFS BOUND IN GATT, IMPORT CONTROLS WILL NOT BE ABOLISHED UNTIL "DESIRED DEGREE" OF PROTECTION OBTAINED.
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4. MINISTER ESTIMATED THAT FY 1972/73 BUDGET WOULD END WITH SURPLUS OF R9 MILLION ON REVENUE ACCOUNT (EXPENDITURES R 2,825 MILLION AND REVENUE R 2,864 MILLION LESS R 30 MILLION FOR OPENING DEFICIT ON REVENUE AND SWA ACCOUNT). LOAN ACCOUNT EXPENDITURES OF R 887 MILLION AND R 264 MILLION TRANSFER TO STABILIZATION FUND LEFT SURPLUS THIS ACCOUNT OF R 2.5 MILLION.

5. BUDGET PROPOSES FY 1973/74 REVENUE ACCOUNT EXPENDITURES OF R 3,461 MILLION (UP 20 0/0) WHICH INCLUDES INTER ALIS (

AMOUNT OF INCREASE IN PARENTHESIS): DEFENSE R 447 MILLION (R 111 MILLION), AFRICAN EDUCATION R 42 MILLION (R 10 MILLION), AFRICAN ADMIN AND DEVELOPMENT R 222 MILLION (R 54 MILLION), COMMERCE AND INDUSTRY R 58 MILLION (R 24 MILLION), SOCIAL WELFARE AND PENSIONS R 210 MILLION (R 26 MILLION), NATIONAL EDUCATION R 140 MILLION (R 26 MILLION), COLORED AFFAIRS R 118 MILLION (R 21 MILLION), AND INDIAN AFFAIRS R 39 MILLION (R 4 MILLION). NEW PROPOSALS INCLUDE VARIOUS INCREASES IN PENSIONS AVERAGING ABOUT 10 0/0 AS WELL AS ADDITIONAL AIDS TO EXPORTERS (SEPTEL) ESTIMATED TO BE WORTH R 5.5 MILLION. MINISTER ESTIMATED NCOME ON REVENUE ACCOUNT AT R 3,235 MILLION.

6. LOAN ACCOUNT EXPENDITURES SET AT R 1,346 MILLION WHICH INCLUDES REPAYMENTS AS WELL AS INCREASES FOR RAILWAYS (R 24 MILLION), AFRICAN AREA DEVELOPMENT (R 11 MILLION) AND PROVINCIAL GRANTS (R 11 MILLION). LOAN ACCOUNT INCOME ESTIMATED AT R 1,247 MILLION WHICH INCLUDES ROLL OVERS IN DEBT AS WELL AS ANTICIPATED R 160 MILLION IN FOREIGN LOANS.

7. PROPOSED TAX INCREASES INCLUDE (ESTIMATED INCREASED REVENUE IN PARENTHESIS): R 50 MINIMUM FOR COMPANY LICENSES (R 7 MILLION), KNOW-HOW PAYMENTS TAX (R 1 MILLION), DIVIDENDS OF FOREIGN SHAREHOLDERS IN INSURANCE COMPANIES (R 200,000), STAMP DUTY ON APARTMENT TRANSFERS (N. A.), AND EXCISE AND CUSTOMS ON TOBACCO (R 9 MILLION).

8. MAJOR TAX CONCESSION PROPOSED INCLUDE (ESTIMATED COSTS IN PARENTHESIS): REDUCTION FROM 20 0/0 TO 10 0/0 OF PERSONAL INCOME TAX SURCHARGE (R 60 MILLION, 5 0/0 REDUCTION IN SALES TAX MAINLY ON HOUSEHOLD GOODS (R 13 MILLION), REDUCTION IN HOUSE TRANSFER DUTIES (R 6 MILLION), INCREASED INVESTMENT ALLOWANCES ON PLANT AND EQUIPMENT (R 18 MILLION), AND CONCESSIONS UNCLASSIFIED

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FOR CAPITAL EXPENDITURES BY MINES (R 3 MILLION).

9. MINISTER ESTIMATED NET EFFECT OF PROPOSED TAXATION CHANGES TO BE LOSS OF R 72 MILLION ON REVENUE ACCOUNT AND R 10 MILLION ON LOAN ACCOUNT. TOTAL BUDGET DEFICIT SET AT R 407 MILLION WHICH IS TO BE COVERED BY TRANSFERS FROM TAX RESERVE AND STABILIZATION ACCOUNTS.

9. IN CLOSING : " TO SUM UP, I FEEL THAT THIS BUDGET ESTABLISHES A BALANCED AND FIRM FOUNDATION FOR ECONOMIC PROGRESS IN SOUTH AFRICA. THE BASIC CONDITIONS FOR ECONOMIC GROWTH ARE RIGHT AND THE CLIMATE FAVORABLE; IT IS NOW FOR ALL OF US, AND PARTICULARLY FOR THE PRIVATE ENTREPRENEUR TO PUT OUR SHOULDERS TO THE WHEEL AND TO GRASP THE OPPORTUNITIES OFFERED BY ECONOMIC REVIVAL."
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